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INTERNAL AUDIT DEPARTMENT

Audit No. 2440

March 9, 2004

TO: Juliette A. Poulson, Agency Director
Health Care Agency

SUBJECT: Secondary Follow-Up of Department Control Review of Revolving Fund,
Audit No. 2136

We have completed a secondary follow-up examination of the Health Care Agency (HCA) revolving fund process. Our examination was limited to a review, as of December 31, 2003, of HCA's planned actions stated in our initial follow-up audit report dated November 18, 2002. These planned actions stemmed from our original audit report dated March 19, 2002.

The initial follow-up review contained four recommendations not fully implemented from the original audit and one additional issue concerning an unused Bank of America account containing some revolving fund monies. Our secondary follow-up review indicated the issue concerning the Bank of America account and three of the four recommendations have been fully implemented. The recommendation not fully implemented in Purchasing Services is noted below along with a comment on the current status.

1. **Checking Account Reconciliation**

Recommendation: HCA management ensure the checking account reconciliation is performed accurately, completely, reviewed/approved by a supervisor, and old outstanding items researched and resolved.

Initial Follow-Up Status: **Partially Implemented.** As of August 2002, HCA has taken steps to ensure that revolving fund checking account reconciliations are reviewed and approved by a supervisor. Also, HCA is in the process of researching and clearing old/outstanding checks; however, approximately \$3,563 in outstanding checks are still in need of resolution. During this review, some other issues came to our attention: account reconciliation had not been performed timely since February 2002, reconciliations were not dated by either the preparer or reviewer, and the reconciliations reflected an inaccurate bank balance.

HCA Planned Action: To be fully implemented by November 30, 2002. To date, HCA has resolved 80% of the outstanding checks in question; by November 30, 2002, all remaining checks older than six months will be cancelled. In addition, account reconciliation is now being performed monthly with reconciliation signed and dated by both the preparer and reviewer.

Current Follow-Up Status: **Not Implemented.** Based on our review of reconciliations for April and November 2003, we noted that the reconciliations were accurately prepared, were signed by the preparer and reviewer, but were not dated to indicate when the reconciliations were prepared and reviewed. Upon further inquiry and review, we noted the bank reconciliations for August 2002 through November 2003 were not prepared monthly; instead they were prepared in January 2004 when we started our current follow-up review. (The issue of untimely reconciliations was also noted during our initial follow-up review in August 2002 when the account reconciliation had not been performed timely since February 2002.) We were informed this current delay was due to a breakdown of a computer system and from increased workloads.

County Accounting Procedure C-7 - Revolving Cash Fund requires that bank checking accounts be reconciled monthly by an independent person with no revolving fund duties. Monthly bank reconciliations help detect any errors or irregularities timely. We believe it is critical to reconcile this checking account monthly because it is HCA's central checking account (authorized for \$76,020) and because a large number of checks are issued from the account each month. Management has the responsibility to ensure there is adequate staffing to prepare the reconciliations and that they are prepared consistently and timely.

HCA Management Response:

HCA Executive Management is extremely concerned that the recommendations of Internal Audit were not fully implemented. HCA recognizes the importance of preparing these reconciliations in a consistent and timely manner and is committed to ensuring that compliance with all items noted is maintained in the future. In order to make certain that these recommendations are immediately and fully implemented, and the reconciliations done in a timely manner, HCA has taken the following steps:

- Informed the staff, direct supervisor, and second level supervisor (Purchasing Supervisor) that this is a performance issue and clarified the performance expectations.
- Assigned the direct supervisor to review the monthly reconciliations and to verify that they are being performed on a timely basis.
- Directed both the preparer and the reviewer (direct supervisor) to sign and date the reconciliations each month.
- Directed the direct supervisor to maintain a log documenting the reconciliations and to submit it to the Purchasing Supervisor on a monthly basis with a monthly report to the Agency Director.
- Directed the Manager of Facilities and Management Services to conduct periodic spot checks to ensure that the monthly reconciliations are conducted on a timely basis and properly documented.

- Requested that HCA Accounting conduct an independent review each month to verify that the reconciliation has been done, and submit a monthly report to the Agency Director.

We appreciate the cooperation and assistance extended to us by the staff of the Health Care Agency during our review.

Sincerely,

A handwritten signature in cursive script, reading "Peter Hughes".

Dr. Peter Hughes, CPA
Director, Internal Audit Department

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
James Ruth, County Executive Officer
Alice Manning, Deputy Agency Director, HCA
Alice Swarder, Manager, HCA/Accounting Services
Dorinda Malloy, Manager, HCA/Management Services